Boss Holdings, Inc.
Fiscal Year Ended
December 28, 2024
Financial Update

Overview

Our primary source of revenue is the marketing and distribution of pet grooming products, pet products, pet supplies, pet healthcare products, promotional products, specialty products, custom imprinted products, and cell phone accessories. The products offered are purchased internationally and domestically for resale.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Operations

Net sales during 2024 were lower (-16.8%) compared to 2023 due to the discontinuation of sales to certain accounts across all business segments, which management identified as unprofitable, continued weak consumer demand in the pet and cellphone accessory segments, key domestic supplier delays in the pet segment and the effects of the cybersecurity event described below. Gross profit as a percentage of net sales in 2024 was higher (+7.9%) compared to 2023 due to strategic price increases across all business segments and management's focus on reducing transportation, warehousing, and distribution costs. Operating expenses, excluding expenses associated with the cybersecurity event in excess of insurance proceeds, were lower (-12.6%) compared to the fiscal year 2023 due to management's focus on reducing operating expenses.

Disaggregated net sales from continuing operations of the pet segment for fiscal years 2024 and 2023, were $32,733,000 and $42,262,000, respectively. Disaggregated net sales from continuing operations of the promotional products segment for fiscal years 2024 and 2023, were $12,664,000 and $12,467,000, respectively. Disaggregated net sales from continuing operations of the cell phone accessories segment for fiscal years 2024 and 2023, were $2,228,000 and $2,502,000, respectively.

During 2024, Boss Holdings, Inc. (the Company) experienced a significant cybersecurity event. A threat actor gained unauthorized access to our network and encrypted data, preventing access to essential information and disrupting our pet and cell phone accessory enterprise resource planning (ERP) systems and networks. The cybersecurity event, and related costs, have negatively impacted on our financial results and operations, including loss of revenue and the temporary loss of access to critical systems and data. The incident required substantial resources for remediation, including costs for recovery in the amount of $2,383,000, forensic investigations in the amount of $243,000 and legal fees in the amount of $31,000. The Company received $2,000,000 of insurance proceeds. Loss from the event and gain from the insurance proceeds are included in operating expenses in the Consolidated Statements of Income.

The Company has recovered, is fully operational and has taken the following steps to increase defenses to protect its ERP systems, networks, and data.

- Enhanced network security measures, including the deployment of advanced intrusion detection and prevention systems.
- Strengthened data encryption and backup protocols.
- Improved incident response procedures.

The financial result for the fiscal year ended December 28, 2024, was a net loss of $1,106,000 versus a net loss of $1,483,000 in 2023.

Inventory on December 28, 2024, was $15,261,000 compared with inventory on December 30, 2023, of $16,242,000, a reduction in inventory of $981,000. Inventories, consisting of products available for sale, are accounted for using the weighted average method for the pet and cell phone accessory segment and the first-in first-out method for the promotional products segment. All inventories are valued at the lower of cost or net realizable value. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

These assumptions about future dispositions of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and investment in debt securities at amortized cost. Our investment in debt securities consists of US Treasury Bills and US Treasury Notes. As of December 28, 2024, and December 30, 2023, our combined balances of cash, cash equivalents, and investment in debt securities were $20,848,000 and $20,771,000, respectively. We believe that the cash flows generated from operations and our cash, cash equivalents, and investment in debt securities will be sufficient to meet our anticipated operating cash needs for at least the next twelve months.

Outlook

Soft consumer demand for non-essential products, and high labor costs continue to challenge all our business segments as inflationary concerns and economic uncertainties, including tariffs, that are impacting consumers in the U.S. and global economies. Changes in global economic conditions, geopolitical conditions, and unforeseen circumstances may impact on our operating results.

Forward-Looking Statements

This Fiscal Year Ended December 28, 2024 Financial Update includes forward-looking statements. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, or future results of operations or financial position, made in this report are forward-looking. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results and outcomes could differ materially for a variety of reasons, including, among others, changes in global economic conditions and customer demand and spending, inflation, interest rates, labor market and global and domestic supply chain constraints.